

High Tech Counsel Corner

We recently received a report entitled *The Angel Investor Market in 2005: The Angel Market Exhibits Modest Growth* from The Center for Venture Research (CVR) of the UNH Whittemore School of Business & Economics.

Of note in the report is a 2.7% dollar increase in angel funding in 2005 over 2004, with 227,000 active individual "angel" investors. The healthcare sector received the largest share of funding (20%), while biotech (18%) and software (15%) were close behind.

Consistent with our experience, the report indicates that typically 4-5 angels join in an investment. In New Hampshire, we are aware of five organized angel groups. Within these groups, one of the angel investors will usually take the lead, including with due diligence and deal structure.

It is important that you have confidence in the lead individual, as he or she will be the champion for your investment opportunity and will likely become a member of your Board of Directors.

According to the report, angel investors are still the largest source of seed and start up investment. This is not surprising, as many venture capital firms have shown an increasing preference to invest larger amounts of capital on a per deal basis – which means that those firms tend to invest in later stage deals. Interestingly, the report notes that market conditions and angel alliances are increasing angel participation in later stage deals.

Another reality of current angel investing is the significant change in the investment terms for a typical angel deal. Today, it is not at all uncommon to see a term sheet from an angel group that is very similar to the type of term sheet that you might see from a venture capital firm.

The CVR reports that, in 2005, angels invested in almost one in every four opportunities presented to them. The so-called "yield rate" in 2005 was 23%, which is historically quite high and, according to the report, could be unsustainable.

The Center for Venture Research is a great source of information about early stage equity funding. We encourage you to visit its web site at www.unh.edu/cvr.



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